DPS-132

MAY 1972

DEMAND AND PRICE Situation

ECONOMIC RESEARCH SERVICE

U.S. DEPARTMENT OF AGRICULTURE

Table 1.--Selected measures of economic activity

Item	Unit	Year 1971	1970		1971				1972
			III	IV	I	II	III	IV	I 1/
Gross national product	Bil. dol.	1,046.8	983.5	988.4	1,020.8	1,040.0	1,053.4	1,072.9	1,103.2
Disposable personal income	Bil. dol.	741.3	696.2	701.5	722.0	739.6	748.5	755.0	765.7
Personal consumption expenditures	Bil. dol.	662.1	620.9	624.7	644.9	657.4	668.8	677.2	690.2
Food spending (excluding alcoholic beverages)	Bil. dol.	118.3	114.3	116.4	116.5	118.1	119.0	119.5	121.1
Implicit price deflator for GNP	1958=100	141.6	136.0	138.1	139.9	141.3	142.2	142.8	145.0
Unemployment rate 2/	Percent	5.9	5.2	5.8	6.0	6.0	6.0	5.9	5.8
Cash receipts from farm marketings	Bil. dol.	51.6	48.4	48.3	49.7	50.6	52.3	53.8	54.5
Nonmoney income and Government payments	Bil. dol.	7.0	7.3	7.3	7.1	7.0	7.0	7.1	7.8
Realized gross farm income	Bil. dol.	58.6	55.7	55.6	56.8	57.6	59.3	60.9	62.3
Farm production expenses	Bil. dol.	42.9	41.2	41.4	42.2	42.8	43.0	43.6	44.0
Farmers' realized net farm income	Bil. dol.	15.7	14.5	14.2	14.6	14.8	16.3	17.3	18.3
Agricultural exports 3/	Bil. dol.	7.7	1.7	2.2	2.0	1.9	1.9	1.9	2.2
Agricultural imports 3/	Bil. dol.	5.8	1.4	1.4	1.4	1.6	1.7	1.1	1.7
Volume of farm marketings	1967=100	108	104	134	92	83	111	147	94
Livestock and products	do.	106	106	109	102	107	108	107	103
Crops	do.	112	102	166	81	52	114	200	84
Prices received by farmers 4/	do.	112	110	106	110	112	112	114	121
Livestock and products	do.	116	117	110	114	114	116	119	129
Crops	do.	108	102	101	105	111	108	108	110
Prices paid by farmers 4/ 5/	do.	120	114	115	118	120	120	121	124
Wholesale price index, all commodities 4/	do.	113.9	110.8	111.0	112.5	113.8	114.7	114.8	117.0
Consumer price index, all items 4/	do.	121.3	117.0	118.6	119.5	120.8	122.0	122.7	123.7
All food	do.	118.4	115.8	115.2	116.1	118.4	119.6	119.4	121.4
Food at home	do.	116.4	114.4	113.4	114.1	116.6	117.7	117.2	119.8

1/ Preliminary. 2/ Unemployment as a percent of the civilian labor force. 3/ Actual values, not seasonally adjusted annual rates. 4/ Not seasonally adjusted. 5/ Including interest, taxes, and wage rates. Quarterly data seasonally adjusted except as noted.

Departments of Agriculture, Commerce, and Labor.

DEMAND AND PRICE SITUATION

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Approved by
the Outlook and Situation Board
and Summary released
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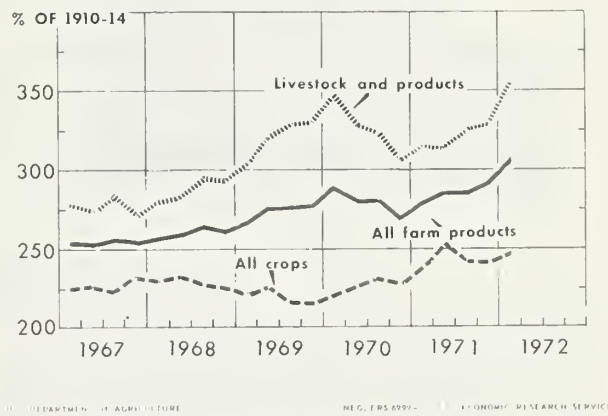
SUMMARY

Farmers are earning more income this year. Farm prices are averaging well above a year earlier despite large grain supplies. Continued strong consumer demand for red meat, coupled with a reduction in pork production, has caused substantial increases in average prices and receipts for livestock products. And a tight supply-demand situation is also supporting income for cotton and soybeans.

PRICES RECEIVED BY FARMERS



A robust economy will also help raise crop receipts \$½ billion and livestock receipts about \$2½ billion in 1972. Grain producers are aided by more program options. Government payments will rise about \$1 billion. These developments will raise gross farm incomes approximately \$4 billion above last year. With production costs rising close to \$2 billion this year, realized net farm income will likely be record high, around \$2 billion over 1971's \$15.7 billion.

Accelerated private investment, stronger sales, and expansive fiscal policies are making spring a little greener this year. Personal incomes are expanding sharply and industrial production is increasing moderately. And first quarter corporate profits were strong. But unemployment, the trade deficit, and price increases remain problems despite the current growth in the gross national product.

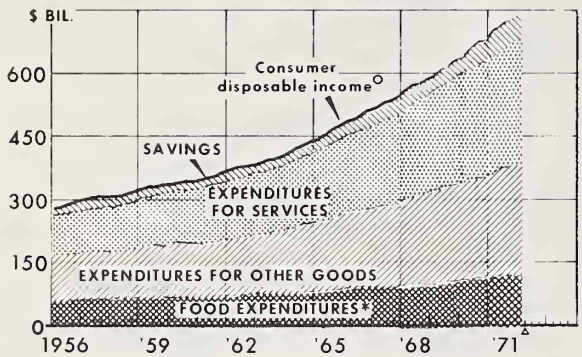
Investment will be brisk throughout the remainder of this year. Inventories will probably rise to accommodate new and unfilled orders in manufacturing. Moreover, housing expenditures are likely to reach new highs. Investment in new plant and equipment may rise 12% this year as firms modernize to improve productivity.

Another expansive factor in the next 12-18 months will be the increase in Federal expenditures and transfer

payments. Federal purchases of goods and services are scheduled to rise approximately 9½% this calendar year after barely edging upward in 1971 and declining in 1970. These developments, coupled with a rise in consumer incomes, point to a strong demand for food and other consumer products in 1972.

Consumer outlays for food in the first quarter this year were at a $121 billion annual rate, about 4% over a year earlier. Food expenditures this year may be nearly 5½% larger than in 1971 with a 4-4½% rise is prices accounting for most of the increase.

INCOME AND EXPENDITURES



°EXCLUDES INTEREST PAID BY CONSUMERS AND PERSONAL TRANSFER PAYMENTS TO FOREIGNERS.
*EXCLUDES ALCOHOLIC BEVERAGES. △ PRELIMINARY

U.S. DEPARTMENT OF AGRICULTURE NEG. ERS 2119-72 (4) ECONOMIC RESEARCH SERVICE

Prices of all food at retail in the first quarter rose 4.7% over a year ago, with food at home up 5%. As beef supplies pick up in coming months and hog marketings increase seasonally next fall, food prices may level off or even decrease from summer highs. Retail fruit and vegetable prices, now well over a year ago, may increase more slowly later this year. For all of 1972, retail food prices will likely be up 4-4½%, with food at home up about 4%.

Exports of U.S. agricultural products in July/March were 1% higher than the record of $5.9 billion during the same period of 1970/71. Gains in value were recorded for most major commodities with only grains (except corn) showing declines. In coming months, smaller domestic supplies of cotton and soybeans will limit exports of these commodities. For all of fiscal 1971/72, the value of U.S. agricultural exports is likely to approximate the record $7.8 billion set in 1970/71.

. . .Outlook for major farm commodities. . .

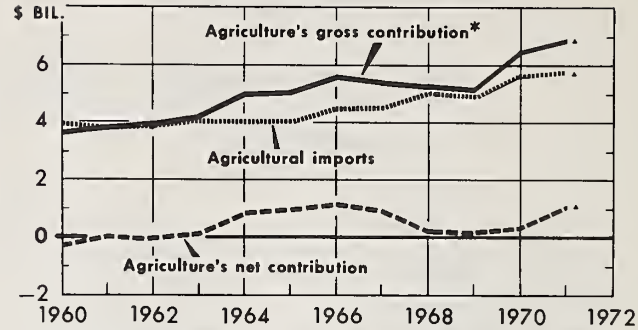
. . .*Cattle* on feed are up, suggesting larger spring and summer marketings. Prices, though remaining above year-ago levels, will likely ease lower in coming months. . .

. . .*Hog* slaughter will continue below a year earlier through the fall. Prices will rise seasonally into summer . . .

. . .*Broiler* ouput gains above a year ago will be narrowed in the second half. Seasonal rises in prices this spring and summer will be tempered by larger production . . .

. . .*Turkey* output is larger so far this year but prices

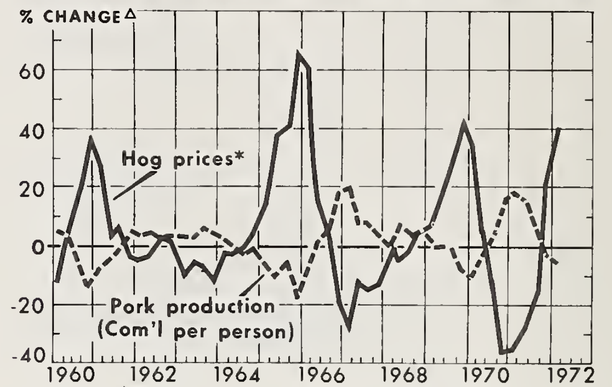
AGRICULTURE'S CONTRIBUTION TO THE BALANCE OF PAYMENTS



*SUM OF DOLLAR RETURNS FROM COMMERCIAL EXPORTS, DOLLAR REPAYMENTS ON CREDITS, AND LOCAL CURRENCIES (ACQUIRED FROM THE SALE OF FARM PRODUCTS UNDER GOVERNMENT PROGRAMS) USED BY U.S. AGENCIES ABROAD IN LIEU OF DOLLARS. ▲ ESTIMATED.

U. S. DEPARTMENT OF AGRICULTURE NEG. ERS 5919-72 (2) ECONOMIC RESEARCH SERVICE

CHANGES IN HOG PRICES AND PORK PRODUCTION



△PERCENTAGE CHANGE FROM PREVIOUS YEAR. *BARROWS AND GILTS AT 7 MARKETS.

U.S. DEPARTMENT OF AGRICULTURE NEG. ERS 5550-72 (5) ECONOMIC RESEARCH SERVICE

are benefiting from brisk demand and higher red meat prices. However, continuing large production may hold prices this summer below 1971 levels . . .

. . .*Egg* supplies continue more than ample and prices are sluggish. As production is curtailed this summer, prices may rise more than seasonally . . .

. . *Milk* production is likely to continue slightly above year-ago levels for the balance of the year. Supplies may hold prices to near support levels and about the same as last year. . .

. . .*Feed grains* are disappearing at a record pace, but will still fall well below the bumper 1971 crop, so carryover will be up substantially at the beginning of the 1972/73 marketing year. Prices have improved in recent months but into the summer will continue below last year's relatively high levels . . .

. . .*Wheat* use is sluggish due to reduced exports. Lower use this season combined with a record crop will boost 1972 carryover to the highest level since 1963. Nevertheless, prices this summer will be close to last year's level . . .

. . .*Soybean* supplies are tight this season, limiting crushings and exports and raising prices to the highest level since 1947/48. Unless weather conditions result in a substantially larger acreage than expected, 1972/73 supplies will continue to be squeezed by strong demand. . .

. . .*Cotton* supplies this season are the smallest since 1947/48 raising prices materially above a year ago. Carryover this August will be off about 1 million bales, partially offsetting intended larger production. . .

. . .*Tobacco* carryover will be lower this season, reducing 1972/73 supply despite intentions pointing to a slightly larger crop. . .

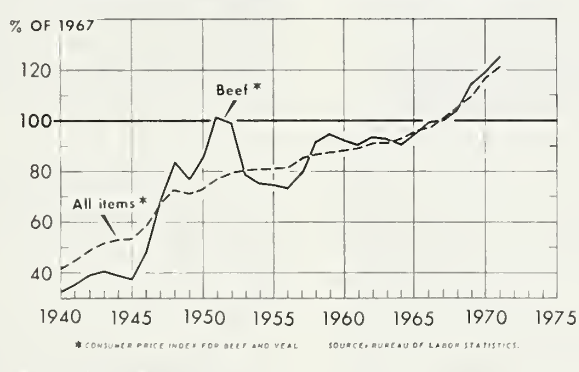
. . .*Citrus* supplies are slightly larger this season but brisk demand is keeping prices firm. . .

. . .*Fresh vegetable* supplies will be slightly lower this spring due to smaller domestic output and little change in imports. *Processed vegetable* supplies are down and carryover will be reduced but planting intentions suggest a moderately larger crop this season. . .

Change from a year earlier in livestock-feed price ratios

Year	Beef steer-corn	Hog-corn	Broiler-feed	Milk-feed
	Percent	*Percent*	*Percent*	*Percent*
1970/69				
I	6.1	31.3	-6.1	0.6
II	-4.7	4.8	-14.7	1.8
III	-10.1	-22.2	-22.2	-.6
IV	-15.7	-47.6	-21.9	-3.8
1971/70				
I	-13.5	-48.9	-12.9	-5.6
II	-8.3	-39.9	0	-4.8
III	15.8	-9.5	7.1	.6
IV	41.7	57.0	8.0	7.3
1972/71				
I	35.1	82.5	11.1	9.6

CONSUMER PRICE INDEX: BEEF AND ALL ITEMS



Farmers are receiving more income this year. Average farm prices continue to be relatively above 1971 levels despite larger grain supplies and increases in beef, poultry, and dairy marketings. A tight supply-demand situation for cotton and soybeans is offsetting the price impact of record food and feed grain harvests last fall and winter. And continued strong consumer demand for red meat, coupled with a reduction in pork production, has caused substantial increases in average prices and receipts for livestock products.

Prices received by farmers change from a year earlier[1]

Month	All crops	Livestock and products
	Percent	*Percent*
January 1971	6.2	-12.7
February	7.1	-7.1
March	9.2	-8.8
April	11.3	-5.8
May	11.0	-2.6
June	12.9	-3.4
July	7.8	-4.2
August	8.0	1.7
September	0	.9
October	3.9	4.4
November	5.9	9.2
December	10.1	12.0
January 1972	8.8	14.5
February	5.7	12.0
March	0	13.2
April	3.7	9.6

[1] Percent changes computed from indices on 1967 base.

For all of 1972 not much overall change is expected in the volume of livestock marketings but crop marketings may increase slightly. A robust economy should help raise livestock receipts about $2½ billion and crop receipts about $½ billion. Grain producers are aided by more program options. Government payments could total close to $4¼ billion for the year, up about $1 billion from 1971. Combined with increased marketing receipts, this would bring farmers' gross incomes up by $4 billion above last year. With increases in production costs slowing, primarily because of larger feed supplies and Phase II, realized net farm income in 1972 will probably be record high, some $2 billion above 1971's $15.7 billion total.

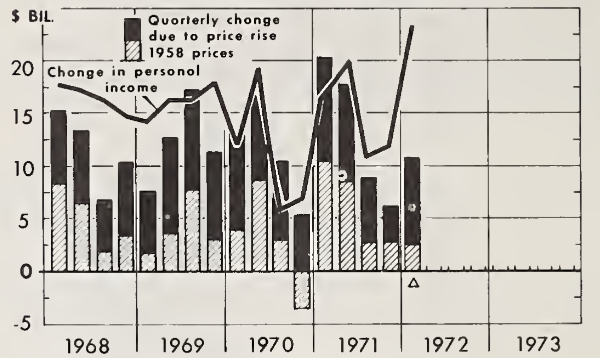
More Domestic Demand

Despite high personal savings and unemployment rates, the 1972 economic recovery is ringing up more sales for food and other consumer products. Consumer purchases of food, alcohol, clothing, shoes, and tobacco rose to $211 billion at an annual rate in the first quarter this year, up from $208 billion in the fourth quarter of 1971. With incomes rising, purchases of these products in 1972 could average about 6% over last year's $205 billion.

Longer work weeks in many manufacturing industries, substantial increases in total employment, and pay raises for many workers will increase consumers' 1972 after-tax incomes about 7½% over 1971. A substantial increase in social security benefits and other transfer payments scheduled later this year will contribute part of the advance. Higher minimum wages for many industrial, service, and farm worker groups also are under consideration.

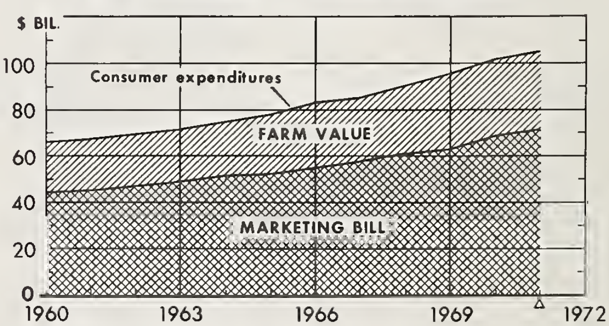
Consumer outlays for food in the first quarter this year were at a $121 billion annual rate, about 4% over a year earlier and $1½ billion more than the total in the fourth quarter of 1971. Most of the advance from the last quarter represents higher prices. Food expenditures this year may be nearly 5½% larger than in 1971, with a 4-4½% rise in prices accounting for most of the increase.

DISPOSABLE PERSONAL INCOME*



*CHANGE FROM PREVIOUS QUARTER. Δ FIRST QUARTER 1972 PRELIMINARY. SEASONALLY ADJUSTED ANNUAL RATE. BASED ON DATA OF DEPARTMENT OF COMMERCE.

FARM-FOOD MARKETING BILL AND CONSUMER FOOD EXPENDITURES



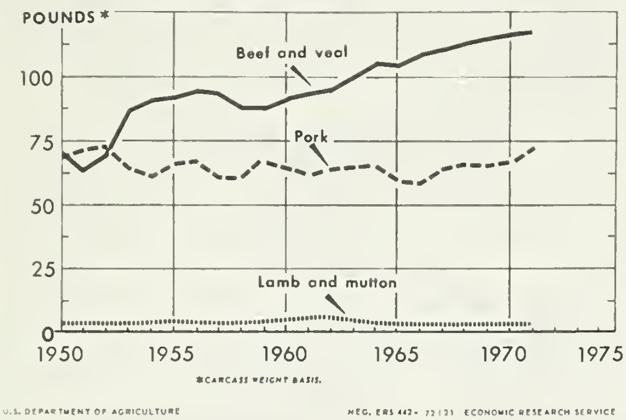
FOR ALL DOMESTIC FARM FOODS PURCHASED BY U.S. CIVILIANS FOR CONSUMPTION, BOTH AT HOME AND AWAY FROM HOME. ΔPRELIMINARY.

U.S. DEPARTMENT OF AGRICULTURE NEG. ERS 8096-72 (2) ECONOMIC RESEARCH SERVICE

Prices of all food at retail in the first quarter ran 4.7% over a year ago, with food at home up 5%. Prices to livestock producers were relatively high in early 1972 but have declined in recent weeks. And retail prices of livestock products have eased off some. Poultry consumption will be up and egg and broiler prices may increase for the year. Smaller supplies will curtail per capita pork consumption probably about offsetting prospective increases in per capita consumption of beef

and poultry. As beef supplies pick up in coming months and hog marketings increase seasonally next fall, food prices may level off or even decrease from summer highs. Retail fruit and vegetable prices, now well over a year ago, may increase more slowly later this year. For all of 1972, retail food prices will likely be up 4-4½%, with food at home up about 4%.

MEAT CONSUMPTION PER PERSON



Imports Up More than Exports

Exports of U.S. agricultural products at $6.0 billion in July-March 1971/72 were 1% higher than the record set during the same period of 1970/71. Gains in value were recorded for most major commodities with only grains (except corn) showing declines. Higher prices this year were responsible for the most of the value increase with substantial price increases noted for cotton, tobacco, and soybeans. Tight world supplies of cotton, butter, soybeans, and protein meal stimulated exports of these commodities. In addition, the devaluation of the dollar and the appreciation of the foreign currencies of some of our major trading partners improved the attractiveness of U.S. farm exports. The West Coast ports were inactive from July 1 through October 6 and from January 17 through February 20, hindering export shipments from these ports. The East Coast and Gulf ports were not all closed during the strike period from October 1 through November 27 helping to ease part of the strike effect. One of the negative results of the strikes was a 14% reduction in agricultural exports to Japan during July-March.

In coming months, smaller domestic supplies of cotton and soybeans will limit exports of these commodities. But, for all of fiscal 1971/72, the value of U.S. agricultural exports is likely to approximate the record $7.8 billion set in 1970/71.

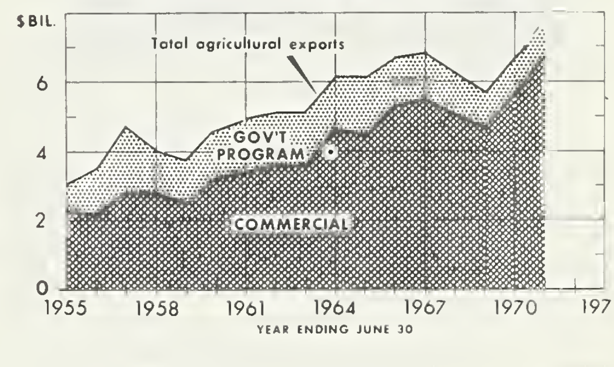
U.S. agricultural imports during July-March 1971/72 at $4.5 billion were nearly 6% above a year ago. The dock strike impeded imports during the first and second quarters of fiscal 1972. But January-March farm imports were aided by post-strike movement, increased domestic demand for industrial and food processing raw materials, suspension of the import surcharge, and duty reductions effective January 1.

U.S. agricultural exports, value of major commodities

Commodity	July-March		Percent-age change
	1970/71	1971/72[1]	
	Million dollars	*Million dollars*	*Percent*
Animals and animal products	675	743	10
Cotton	340	432	27
Feed grains, excluding products	919	789	-14
Fruits	254	272	7
Soybeans	967	1,050	9
Tobacco, unmanufactured	441	471	7
Vegetables	150	166	11
Wheat and flour	917	748	-18
Rice	218	207	-5
Other	1,013	1,089	8
Total exports	5,894	5,967	1

[1] Preliminary.

U.S. AGRICULTURAL EXPORTS: COMMERCIAL AND UNDER GOVERNMENT PROGRAMS



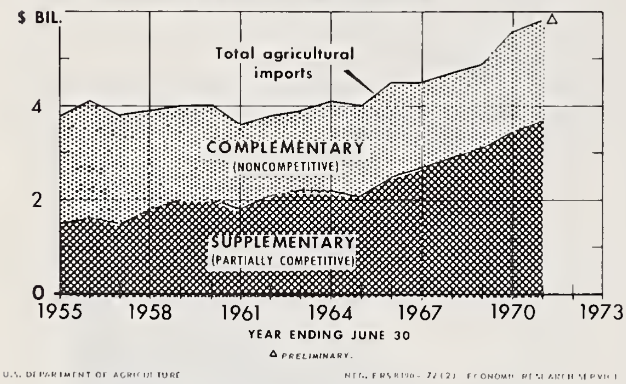
U.S. agricultural imports, value of major commodities

Commodity	July-March		Percent-age change
	1970/71	1971/72[1]	
	Million dollars	*Million dollars*	*Percent*
Supplementary			
Animals and animal products	1,142	1,208	6
Fruits	106	112	6
Oilseeds and oil products	160	152	-5
Sugar and molasses	566	645	14
Tobacco, unmanufactured	105	123	17
Vegetables	212	222	5
Wines and malt beverages	136	162	19
Other	252	267	6
Total	2,679	2,891	8
Complementary			
Bananas	143	130	-9
Cocoa and chocolate	210	187	-11
Coffee	897	920	3
Rubber	149	161	8
Other	188	223	19
Total	1,587	1,621	2
Total imports	4,266	4,511	6

[1] Preliminary.

The value of competitive (supplementary) agricultural imports totaled $2.9 billion in July-March, 8% higher than the level of a year ago. Advances were noted for most major competitive items with only oilseeds and oil products value off moderately. Imports of noncompetitive (complementary) farm products showed only a slight increase compared with a year earlier, totaling $1.6 billion. Increases in the value of coffee, rubber, and minor noncompetitive imports served to more than offset value declines for bananas and cocoa and chocolate.

U.S. AGRICULTURAL IMPORTS: SUPPLEMENTARY AND COMPLEMENTARY



The U.S. agricultural trade balance during July-March 1971/72 declined 11% below the same period of a year ago due to the faster rise in imports this year. At $1,456 million the trade balance was $172 million below the level of July-March 1970/71.

U.S. agricultural trade balance July-March 1970/71 and 1971/72

Item	1970/71	1971/72[1]	Percent-age change
	Million dollars	*Million dollars*	*Percent*
Exports	5,894	5,967	1
Imports	4,266	4,511	6
Trade balance	1,628	1,456	-11

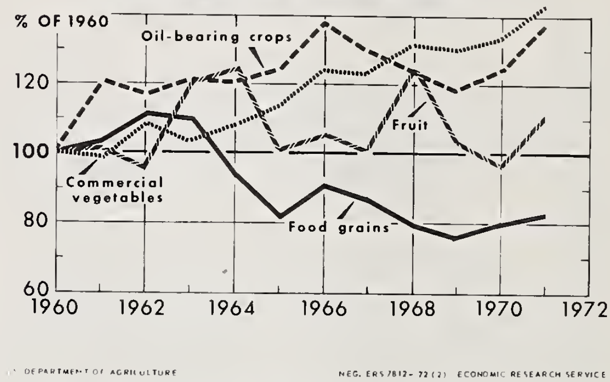
[1] Preliminary.

Lots of 1971 Crops Still Around

The record 1971 grain harvest is keeping the lid on most grain prices this season. For example, corn prices received by farmers, although seasonally buoyed this spring by record loan activity and a heavy disappearance, averaged $1.07 a bushel in October-April, 31 cents below the high level of last year and 5 cents under more typical prices 2 years ago. Barring a short 1972 crop, loan redemptions will likely temper any strength in corn prices this summer. Farmers have signed up to set aside 37 million acres of feed grains, about double that of 1971. March 1 acreage plans together with normal growing conditions indicate smaller 1972 production and firmer prices this fall than the low levels last year.

Hurt by declining exports, wheat utilization has been below a year earlier, further aggravating the heavy domestic supply situation. Despite very heavy feeding, and with little change in seed and food use this year, wheat carryover this summer may reach 925 million bushels, the most since 1963. Spring wheat prices are well below last year, but winter wheat prices are a little higher. Both have been helped by loan participation. Although producers are cutting acreage, 1972 production will still be above anticipated demand.

PRICES RECEIVED BY FARMERS FOR SELECTED CROP PRODUCTS



The picture for rice is nice. Total disappearance will substantially exceed the 1971 crop, lowering carryover by this summer. Large P.L. 480 shipments and some rise in domestic usage are providing the good news. The 1972 rice program remains unchanged from the basic program of recent years.

In contrast to grain prices which are averaging below 1971 levels, soybean prices are rising. The soybean supply-demand situation is expected to continue tight for the next 18 months, despite an indicated 6% increase in production this summer. In 1971 farmer's cash receipts from soybeans hit a record $3.4 billion, tying with corn for the leading cash crop for the first time.

The 1971/72 cotton supply was the smallest since 1947/48. Beginning stocks were down sharply and the 1971 crop was up only slightly. But farmers intend to increase acreage this year about a million acres, responding to higher cotton prices. Tight cotton supplies and higher prices are limiting 1971/72 exports.

The prospective tobacco acreage with average growing conditions indicates a 1972 crop of 1.8 billion pounds, up slightly from last year. Exports may decline slightly in the current fiscal year as United Kingdom manufacturers attempt to economize on leaf costs. The projected 1972 U.S. tobacco crop falls below the anticipated 1972/73 use, continuing a long-term decline in carryover.

There are slightly less fresh and canned vegetables than a year ago. And frozen stocks are down substantially. Dry bean stocks are also light and grower

Stock of grains

Grain and position	April 1, 1971	April 1, 1972	Percentage change 1972/71
	Million tons	*Million tons*	*Percent*
TOTAL FEED GRAINS			
On farms[1]	66	85	29
Off farms[2]	32	41	28
Total	98	126	29
	Million bushels	*Million bushels*	*Percent*
WHEAT			
On farms[1]	384	528	38
Off farms[2]	679	687	1
Total	1,064	1,215	14
SOYBEANS			
On farms[1]	247	217	-12
Off farms[2]	369	334	-9
Total	616	551	-11

[1] Estimates of the Crop Reporting Board. [2] Including grain owned by Commodity Credit Corporation.

prices high. But burdensome potato stocks continue to depress prices. Potato growers are cutting acreage and the fall market may improve. Sweetpotatoes and dry edible bean prices will probably be up for the year.

The total 1971/72 citrus crop is slightly larger than last year. Supplies are ample but the remainder of the crop is expected to move without difficulty. Sales of frozen concentrated orange juice are reported to be brisk and processor stocks are below a year ago.

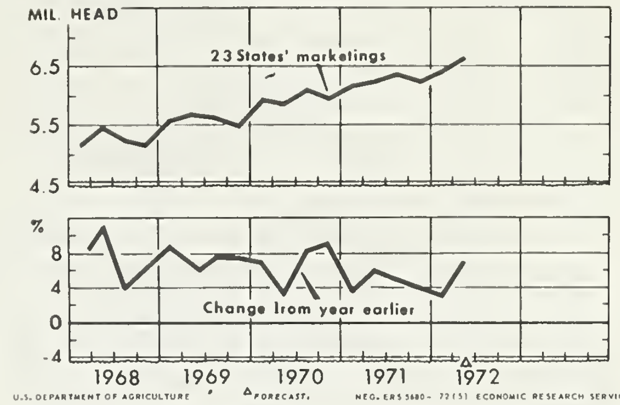
Output and Prices of Livestock and Products

Output of livestock and products during the first quarter was about the same as the first quarter 1971. Moderate advances in poultry and eggs and slight gains in beef and milk were balanced against materially less pork and further declines in veal and lamb. Total red meat supplies dipped slightly below a year earlier. This was due to the continued cutback in pork output prompted by lower prices in the second half of 1970 and in the winter and spring of 1971. Little growth in total livestock supplies and a vigorous consumer demand pushed first quarter 1972 livestock prices 13% above the same period of a year ago.

Expectations for all of 1972 look for total livestock supplies to inch up only slightly. A healthy economic climate will likely keep demand strong but price increases above a year ago will probably narrow later in the year as beef supplies expand some. For the year, prices to livestock producers are expected to average substantially above 1971 levels.

Fed cattle marketings this winter were 3% larger than a year ago with the bulk of the gain coming from feedlots in the Western States. With winter placements up slightly, cattle feeders reported 9% more cattle on feed on April 1 than in the spring of 1971. Intentions

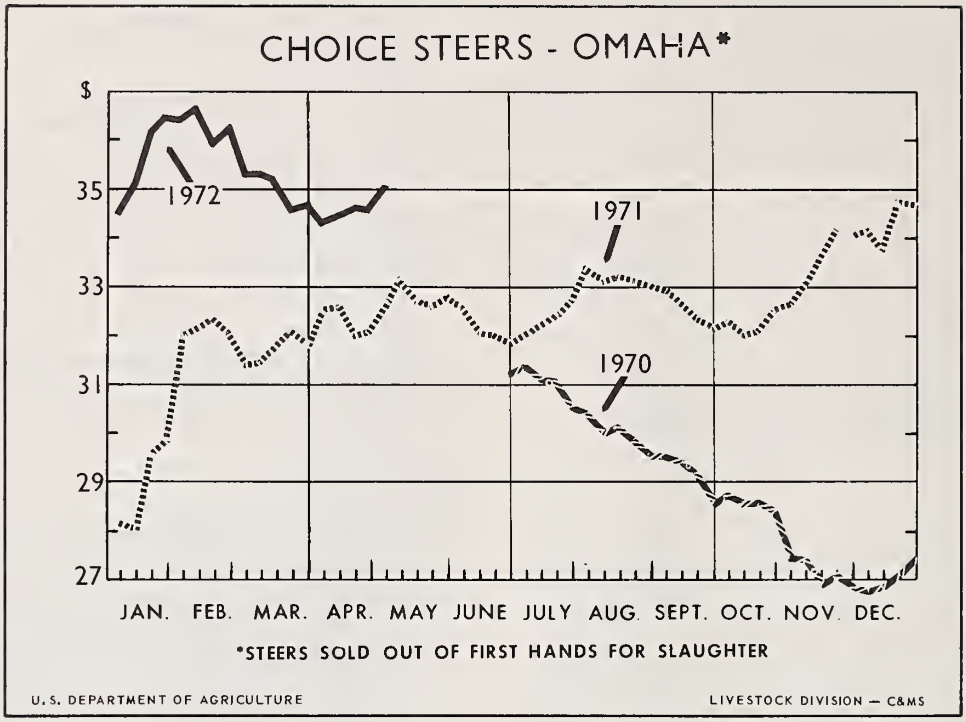
FED CATTLE MARKETINGS, BY QUARTERS

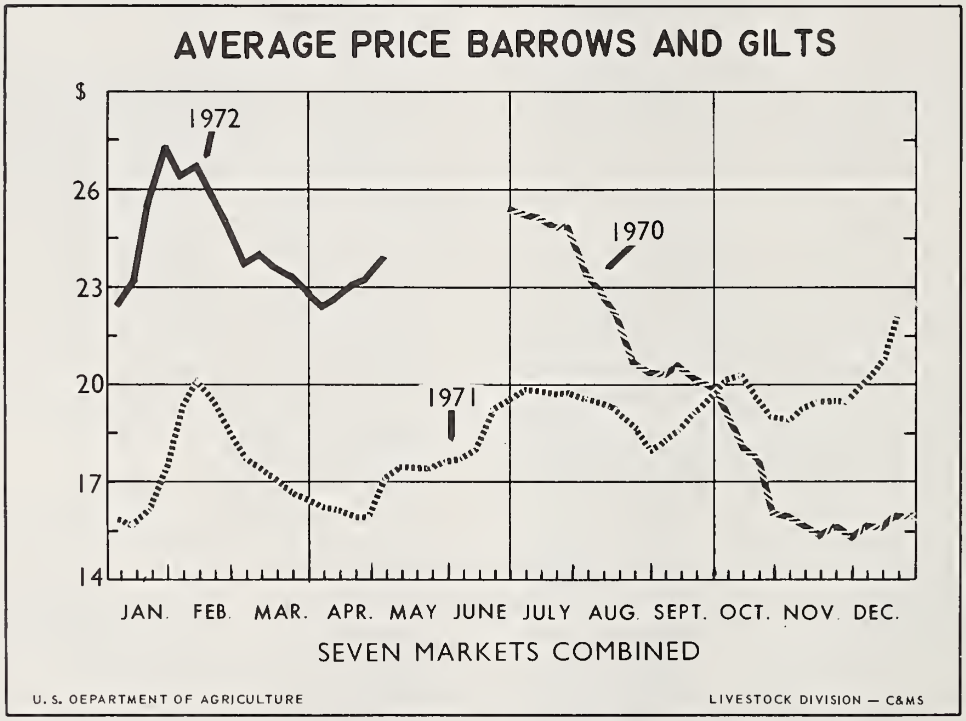


point to a possible 6% advance in cattle moving to market this spring. In addition, there were materially more cattle in weight groups typically marketed in the summer months. Choice steer prices at Omaha reached a peak of $36.75 per 100 pounds in early February, more than $4 above a year earlier. Prices, though still moderately above a year ago, drifted to a level about $2 below the February high in early May. With prospects for larger fed cattle marketings this spring and summer, prices likely will continue to ease lower but remain above 1971 levels.

Hog slaughter in the first quarter trailed year-earlier levels by 8% and prices to hog producers increased by two-fifths. The seven market price of barrows and gilts rose sharply in January to more than $27 per 100 pounds, nearly $10 above 1971. Prices have declined since and in early May were $24.00, about $6 above a year ago. Slaughter, declining seasonally into summer, will continue below 1971 with 6% fewer marketable hogs on farms this spring. The December-February 1972 pig crop is estimated down 6% and producers intended to have about 7% fewer sows farrow in March-May. As a result, hog slaughter, though rising seasonally in the fall, will remain lower than year-ago levels through the fall. Hog prices seasonally will rise through the summer and then decline in the fall.

Broiler output rose moderately in the first quarter from first quarter 1971. Increased chick placements point to a further expansion in output this spring, but gains above 1971 levels may not be as large in the second half of the year. Lower pork supplies and material gains in consumer after-tax incomes kept broiler prices above year-earlier levels in the first quarter despite larger output. Expanding production will likely dampen seasonal price rises in the spring and summer. However if output advances are moderate, prices will probably benefit from tight red meat supplies and strong consumer demand. Turkey output at Federally inspected plants was up a fourth during the first 2 months of the year and will remain larger through the first half. Subsequently, gains will moderate, though second half production will continue above year-ago levels. Strong demand kept turkey prices firm in the first quarter when



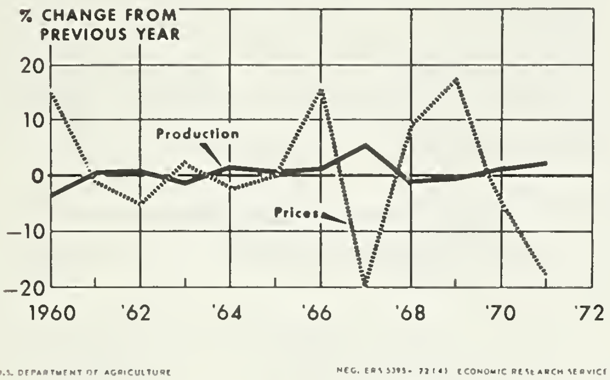


they averaged 22.6 cents a pound, more than 4½% above first quarter 1971. With output large, prices this summer may average below a year ago.

Egg production in the first quarter was moderately higher than the same period of 1971 as increases in the rate of lay continued to more than offset declines in the laying flock. Large supplies and sluggish demand drove first quarter prices to egg producers down about 9% from a year earlier, despite some improvement in mid-March. Grade A egg prices at New York moved above 1971 in mid-March to 36 cents a dozen before falling sharply to 26 cents in early April, following a disappointing Easter season. With output now rising seasonally, prices are likely to remain weak through the first half. Further trimming of the laying flock and slower gains in the rate of lay, coupled with seasonal

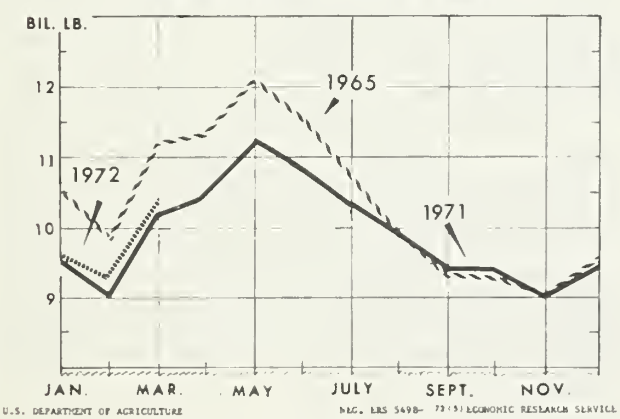
declines in output will probably bring a more than seasonal rise in egg prices this summer. For the second half egg prices are expected to run moderately above year-earlier levels.

EGGS: CHANGES IN PRODUCTION AND FARM PRICES



Milk production during the first quarter rose to 29.4 billion pounds, which represented a 1% daily average increase. Gains in output per cow served to more than offset a 1% decline in cow numbers. Milk prices averaged $6.08 per 100 pounds, helping to boost producer cash receipts about 5% above a year earlier. Milk production is likely to continue slightly above a year earlier during the balance of 1972. However, blend prices will be under some pressure in coming months from large supplies. Nevertheless, cash receipts to milk producers in 1972 will probably advance to around $7.0 billion compared with $6.8 billion reported in 1971.

U.S. MILK PRODUCTION BY MONTHS



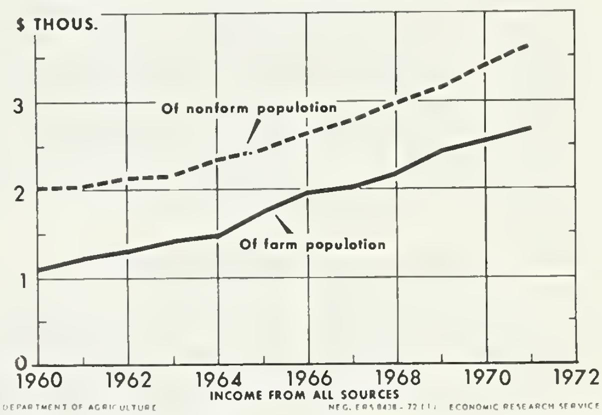
Wool prices have averaged higher in the last few months reflecting smaller domestic and world production and overall improvement in demand and consumption. The U.S. sheep inventory continues a steady decline, 7% below the year earlier. Mohair prices, after declining from an average of 39.1 cents a pound in 1970 to 30.1 cents in 1971 will likely recover sharply this year.

Farm Income

Farm income improved materially in the first quarter of 1972 compared to a year earlier. Higher prices were responsible for most of the gain as farm marketings inched only slightly higher. Higher prices for most livestock commodities boosted prices received by livestock producers up by 13%. In the crop sector, higher prices for cotton, tobacco, soybeans, fruits, and vegetables led the moderate advance in prices. Production expenses advanced moderately in the first quarter but at a less rapid rate than a year earlier.

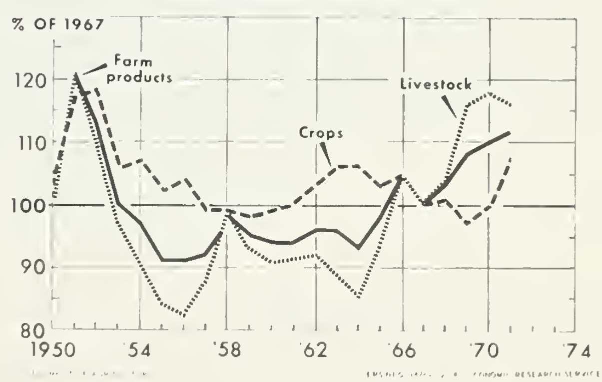
Realized net farm income at an annual rate spurted more than $3½ billion above 1971's first quarter annual rate of $14.6 billion. For the balance of 1972 realized net farm income is likely to continue strong, though advances above a year ago are not likely to match the first quarter gain. In 1971, net farm income was substantially higher in the second half than in the first.

DISPOSABLE PERSONAL INCOME PER CAPITA



For the year, prospects are for a material improvement in cash receipts and gross income. Higher prices and little increase in marketings are expected to boost livestock receipts substantially above 1971. Gains in crop receipts will likely narrow during the balance of the year and total only slightly higher than 1971's level. However, government payments will be higher, about $1 billion above 1971's $3.2 billion. This points to a level of gross income for 1972 around $4 billion higher than 1971's $58.6 billion.

PRICES RECEIVED BY FARMERS

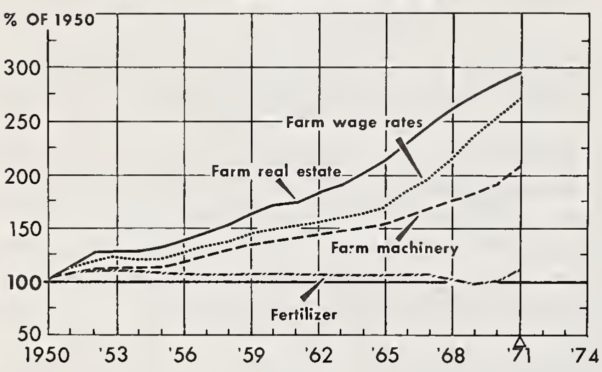


Production expenses are not rising as fast this year due to lower feed costs and Phase II economic programs. But advancing prices are still likely to raise farm expenses close to $2 billion above the $42.9 billion of last year. With gains in gross income exceeding increases in production expenses, realized net income will reach a record level, possibly $2 billion above 1971's $15.7 billion. Income on a per farm basis may be up 15% or more from the $5,468 average of 1971.

Farm Inputs

Prices paid by farmers for production items, interest, taxes, and wage rates through April averaged more than 4½% above a year earlier. Nevetheless, these increases have shown some signs of slowing in recent months from the more than 5% advance recorded through April 1971. Production costs have risen this year for most major categories of farm inputs with only feed costs declining moderately below a year ago. Lower feed costs and higher prices to livestock producers since late last summer have stimulated feeder livestock demand pushing costs up substantially. Through April they were running 15% above a year ago. Increases in prices paid by farmers for the balance of the year, are likely to be moderated by Phase II economic programs, continued cheap feed, and a more plentiful supply of feeder livestock.

PRICES OF SELECTED FARM INPUTS

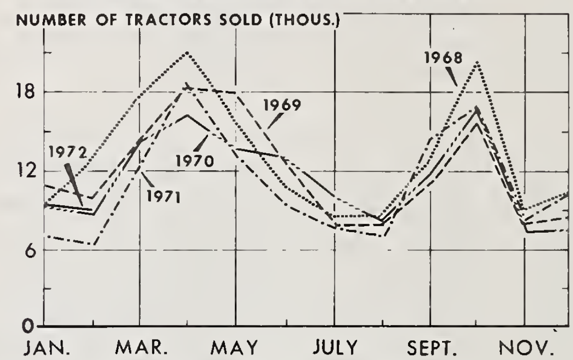


U.S. DEPARTMENT OF AGRICULTURE NEG. ERS 3995-71 (8) ECONOMIC RESEARCH SERVICE

Farm wage rates (per hour without board or room) on April 1, 1972, climbed to $1.84, 4½% above a year earlier. Wage rates were higher in all regions of the country this year. Increases ranged from the 3% gain in the South Atlantic region to the 7% advance recorded in the Mountain State area. For the remainder of the year, farm wage rates are likely to continue above a year ago, averaging moderately above 1971's annual rate.

Retail sales of farm tractors according to the Farm and Industrial Equipment Institute closed out 1971 on a strong note, though total annual sales were down close to 3%. Through February 1972, sales activity continued brisk with unit sales up by more than a third. In addition, trends toward the larger horsepower units are continuing. Despite a drop of more than one-fourth in farm tractors sold during the last five years, there has been a more than 25% pickup in the 100 and over horsepower units.

RETAIL SALES OF FARM TRACTORS



BASED ON DATA OF FARM AND INDUSTRIAL EQUIPMENT INSTITUTE.

U.S. DEPARTMENT OF AGRICULTURE NEG. ERS 8114-72 (4) ECONOMIC RESEARCH SERVICE

Retail sales of farm machinery, sluggish in the first half of 1971, rebounded toward the end of the year. A continuing preference for the larger, more powerful units is evident in farm machinery buying, just as in farm tractor purchases. The major categories of farm equipment showed a material increase in corn head sales, a moderate advance in purchases of corn pickers, and only a slight pickup in combine sales. Declines were registered for some categories of harvesting equipment.

For all of 1972, farm tractor and machinery sales are likely to be boosted by a favorable economic climate and improved farm incomes. Additional stimulus could come from the investment tax credit and lower interest rates. Also, Phase II inflation curbs may offer an extra incentive if they succeed in tempering price rises for farm capital equipment. However, some dampening influence to tractor and machinery demand could come from a substantial increase in feed grain set-aside acreage.

Table 2.--Production and prices received by farmers for major livestock and livestock products, 1969, 1970, 1971, and first quarters of 1971 and 1972

Item	Unit	Annual			First quarter	
		1969	1970	1971	1971	1972 1/
Production 2/						
Beef and veal	Mil. lb.	21,831	22,272	22,450	3/5,433	3/5,491
Pork	Mil. lb.	12,953	13,434	14,793	3/3,671	3/3,500
Lamb and mutton	Mil. lb.	550	551	554	3/145	3/142
Chickens	Mil. lb.	8,054	8,660	8,720	3/1,852	3/2,009
Turkeys	Mil. lb.	1,614	1,757	1,809	3/124	3/149
Eggs	Mil. lb.	9,038	9,189	9,385	2,343	2,402
Milk	Bil. lb.	116.3	117.1	118.6	4/28.8	4/29.4
Prices received by farmers						
Cattle	Dol./cwt.	26.20	27.10	28.80	27.70	32.10
Hogs	Dol./cwt.	5/22.20	5/22.70	5/17.60	17.10	23.90
Lambs	Dol./cwt.	27.20	26.40	25.70	24.10	27.40
Broilers	Ct./lb.	15.2	5/13.6	5/13.7	13.5	14.2
Turkeys	Ct./lb.	22.4	22.6	22.1	21.6	22.6
Eggs	Ct./doz.	40.0	5/39.1	5/31.4	33.3	30.2
All milk (sold to plants)	Dol./cwt.	5.49	5.71	5.87	5.92	6.08

1/ Preliminary. 2/ Data for 50 States except where noted. Carcass weight production for red meats; ready-to-cook for poultry, and shell-weight for eggs. 3/ Data for 48 States. Commercial slaughter only. 4/ Based on monthly data. 5/ Marketing year average December-November.

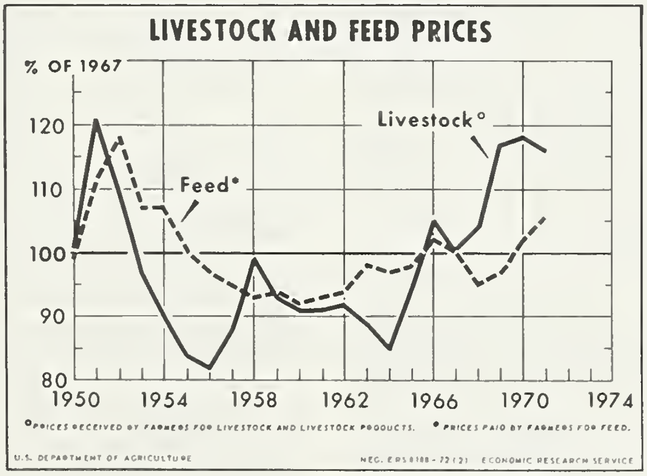


Table 3 .--General economic activity

(Quarterly data at seasonally adjusted annual rates)

Item	Year 1971	1971 II	1971 III	1971 IV	1972 I 1/
	Billion dollars				
Gross national product	1,046.8	1,040.0	1,053.4	1,072.9	1,103.2
Gross national product (1958 dollars)	739.4	735.8	740.7	751.3	761.0
Disposable personal income	741.3	739.6	748.5	755.0	765.7
Personal consumption expenditures	662.1	657.4	668.8	677.2	690.2
Durable	100.5	99.1	102.8	103.6	107.0
Nondurable	278.6	277.8	280.2	283.3	286.9
Services	282.9	280.5	285.8	290.3	296.3
Personal savings	60.5	63.6	61.0	59.0	56.5
Net government receipts	212.7	208.7	211.7	220.0	---
Government purchases	233.0	229.6	233.8	240.8	250.4
Federal	97.6	96.0	97.6	100.3	105.4
State and local	135.5	133.6	136.2	140.5	145.1
Deficit or surplus (on income and product accounts)	-20.3	-20.9	-22.2	-20.9	---
Gross private domestic investment	151.6	152.9	150.8	159.4	167.6
Fixed investment	149.3	148.3	152.0	157.0	167.1
Residential	40.6	40.0	42.7	44.4	49.0
Nonresidential	108.7	108.3	109.3	112.6	118.1
Change in business inventories	2.2	4.6	-1.2	2.4	.6
Gross retained earnings	112.9	111.9	113.0	119.0	---
Excess of investment	-38.7	-41.0	-37.8	-40.4	---
Net exports of goods and services	0	.1	0	-4.6	-5.1
Per capita disposable personal income (1958 dollars)	2,660	2,663	2,669	2,676	2,682
Total civilian employment (millions) 2/	79.1	78.7	79.2	80.0	80.8

1/ Preliminary.

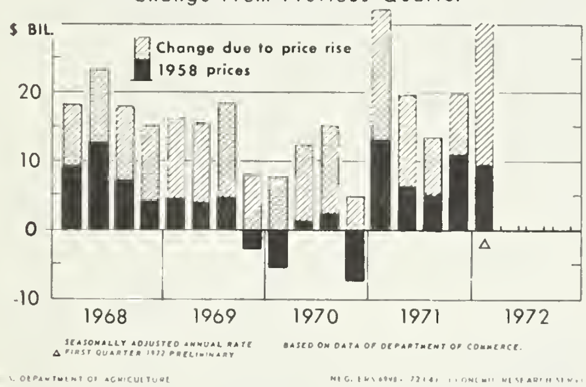
2/ U.S. Department of Labor.

U.S. Department of Commerce.

Accelerated private investment, stronger retail sales, and expansive fiscal policies are making spring a little greener this year. Personal incomes, buoyed by higher wage rates and larger transfer payments, are expanding sharply. Industrial production is increasing moderately. And corporate profits have made substantial gains, giving investors renewed confidence. But unemployment, the trade deficit, labor disputes, and inflation remain obstacles to long-term economic expansion.

The gross national product rose significantly in the first quarter as most economic sectors made considerable progress. Gains in housing, Federal, State and local government expenditures, and new plant and equipment outlays led the way. Consumer purchases of services and durable goods were also strong.

GROSS NATIONAL PRODUCT
Change From Previous Quarter



Outlook Continues Good

Recent intention surveys indicate that business investment will continue to be brisk throughout the remainder of this year. Inventories will probably rise to accommodate new and unfilled orders in manufacturing. And home buying is likely to reach new highs, responding to pent-up demand, continuing heavy government support, and a relatively favorable credit situation. Investment in new plant and equipment may rise 12% this year as tax credits and new depreciation allowances are utilized and public and private demand remains vigorous. Corporate profits will probably exceed $100 billion annual rate late in the year. The favorable investment picture will probably carry over into 1973. This will be particularly true if cost rises can be slowed and productivity increases maintained or improved.

Another expansive factor in the next 12-18 months will be the increase in Federal expenditures and transfer payments. Federal purchases of goods and services are scheduled to rise approximately 9½% this year after barely edging upward in 1971 and declining in 1970. A scheduled 5% across-the-board increase in social security benefits, together with other additional benefits, will add $3.2 billion annual rate to the income stream in the third quarter of 1972 and $3.9 billion by early 1973. Moreover, the increase in personal exemptions and low income allowance under the 1969 and 1971 tax legislation will more than offset increased social security taxes. A miscalculation of payroll withholding rates for 1972 is partially delaying increases in purchasing power.

GNP and final sales from previous quarter

Year	GNP	Fiscal sales	Inventory change[1]
	Billion dollars	*Billion dollars*	*Billion dollars*
1968:I	18.1	25.3	-7.1
II	23.4	16.6	6.7
III	17.8	19.7	-1.9
IV	15.0	14.6	.4
1969:I	16.2	17.7	-1.5
II	15.4	15.2	.2
III	18.4	14.8	3.6
IV	7.8	12.5	-4.7
1970:I	8.0	13.3	-5.3
II	12.5	10.9	1.7
III	15.0	11.9	3.0
IV	4.9	6.3	-1.4
1971:I	32.4	33.0	-.6
II	19.2	17.7	1.5
III	13.4	19.2	-5.8
IV	19.5	15.8	3.6
1972:I[2]	30.3	32.2	-1.8

[1] Respresents the difference in the change in business inventories. For example, the change in business inventories in the first quarter of 1972 ($0.6 billion) less the change in the fourth quarter of 1971 ($2.4 billion) equals minus $1.8 billion.
[2] Preliminary.

The extent of future consumer reaction to income stimulation remains unknown. (See special article this issue.) Retail sales are well above a year ago but the rate of increase has not been consistent. First quarter buying looked very good but much depends upon the effect of Phase II, monetary and fiscal policies, upon prices, and the rate of unemployment. Normally, an expansion in output and income after a recession brings a buying surge.

Based upon the performance of the economy so far this year and the expected rise of investment and government outlays, real output will probably increase by 5% with a gain of 9% in the current dollar gross national product. With a little help from transfer payments and some decline in taxes, disposable personal incomes may rise around 7½%. These factors should cut into unemployment toward the end of the year. Income gains will add to demand for food and other consumer items and continue to place price pressure on a number of commodities and services.

Winter Spending Brisk

Consumers accelerated their spending in the first 3 months of this year to over $690 billion at seasonally

Major GNP components, change from previous quarter

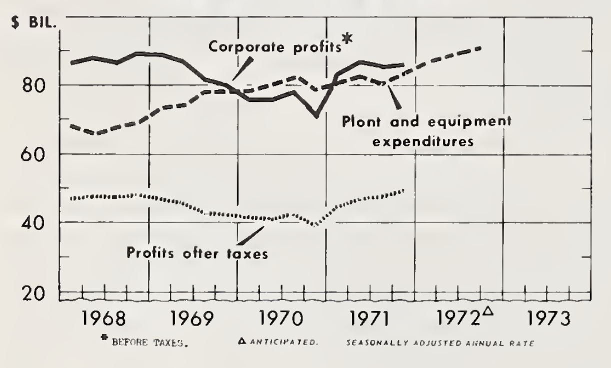
Item	1971 III	1971 IV	1972 I[1]
	Billion dollars	Billion dollars	Billion dollars
Total change in GNP	13.4	19.5	30.3
Consumption	11.4	8.4	13.0
Private nonresidential fixed investment	1.0	3.3	5.5
Housing	2.7	1.7	4.6
Inventory[2]	-5.8	3.6	-1.8
Net exports	-.1	-4.6	-.5
Government	4.2	7.0	9.6

[1] Preliminary. [2] See footnote 1, text table, above.

adjusted annual rates. A $13 billion gain was equally divided between goods and services. The continuing boom in housing and increases in incomes have apparently led to large spending for furniture and household equipment. Appliance stores are doing very well, with color T.V. sets selling well over a year earlier.

Auto sales which were primarily responsible for a surge in demand for durable goods last year have moderated somewhat. But a 10 million unit year is still anticipated for the automobile industry. Required safety features and higher wage costs are expected to raise list prices moderately.

CORPORATE PROFITS AND PLANT AND EQUIPMENT EXPENDITURES



Investment Climbing

The capital investment recovery that began last year has quickened. Fixed business investment and housing expenditures surged in the first quarter, rising about $10 billion at a seasonally adjusted annual rate. Expenditures for producers' durable equipment in the first quarter were about 15½% over first quarter 1971, and nonresidential structures, 7½%. Producers have taken advantage of the investment tax credit granted last year in an effort to improve productivity despite their low capacity utilization rate. A large amount of capital spending is going into modernization and anti-pollution systems.

Industrial production, reflecting increased investment and consumption, rose strongly in March, the seventh consecutive monthly advance. Major gains were noted in output of steel, textiles, paper, and consumer goods. Still, industrial production has not yet regained its 1969 peak.

Although housing starts on a seasonally adjusted basis were fewer in March, total new starts rose in the first quarter and may average around 10% higher or around 2.2 million in 1972. Government subsidized housing, about 450,000 starts in 1971, will likely increase substantially. Housing expenditures increased $4.6 billion in the first quarter to a $49 billion annual level.

Government Expenditures and Receipts

The rise in Federal expenditures in the first quarter exceeded the advance in State and local government outlays for the first time in several years. Most of the $5 billion Federal increase was due to defense spending which reflected military pay raises and equipment purchases. Defense spending, the largest single budget category, is expected to expand rapidly in the next fiscal year. A $6.3 billion increase in new budget authority is being sought to strengthen our nuclear deterrent and modernize the general purpose defense forces. The current Vietnam action may add additional costs.

Federal receipts and expenditures, national income basis[1]

Item	1971 First half	1971 Second half	1972 First quarter[2]
	Billion dollars	Billion dollars	Billion dollars
Receipts	197.1	200.4	[3]219.9
Personal tax	87.1	90.9	103.9
Corporate profits tax	34.4	32.6	[3]34.0
Indirect business tax	20.3	20.2	20.2
Social insurance	55.3	56.6	61.8
Expenditures	217.0	226.6	236.4
Goods and services	96.2	99.0	105.3
Transfer payments	73.7	78.0	79.3
Grants to State and local governments	28.2	30.9	32.6
Net interest paid	13.6	13.8	13.2
Subsidies less surplus	5.3	4.8	5.9
Surplus or deficit	-20.0	-26.2	-16.5

[1] Calendar years, seasonally adjusted annual rates. [2] Preliminary. [3] Estimated.

Although Federal purchases of goods and services accelerated early this year, the accumulation of deficit slowed. Personal tax and nontax receipts climbed $10.9 billion at an annual rate. And social security contributions advanced $4½ billion over the fourth quarter receipts. In 1971, payroll tax withholdings were too small, requiring many taxpayers to make additional payments in their April returns this year. Tax deductions have been raised this year, but for many taxpayers they are now too high. Therefore, the deficit for the first quarter will probably be around $16 billion annual rate instead of $26 billion or more. This situation may temporarily cause the Federal deficit to be a little less

expansive factor in the economy and reduce pressure in the money market.

State and local governments in the aggregate are showing a surplus, with receipts larger than expenditures. In 1971, local surpluses totaled nearly $3 billion. Federal grants-in-aid have helped considerably, rising $5.2 billion in 1971 and $1 billion in the first quarter this year on an annual basis. The rise in the general economy will bring in more corporate and personal taxes although State fund raisers will find interest rates a little higher.

Major personal income components, change from previous quarter

Item	1971 III	1971 IV	1972 I[1]
	Billion dollars	*Billion dollars*	*Billion dollars*
Personal income	11.2	12.1	23.2
Wages and salaries	6.3	9.7	21.8
Manufacturing	-.2	2.7	5.6
Nonmanufacturing	4.0	5.3	10.6
Government	2.4	1.7	5.6
Other Income	4.7	2.0	2.3
Transfer payments	.5	.8	1.7
Social Insurance payments (minus)	.3	.4	2.4
Personal tax payments	2.2	5.7	12.5
Disposable personal income	8.9	6.5	10.7
Personal outlays	11.6	8.4	13.2
Personal savings	-2.6	-2.0	-2.5

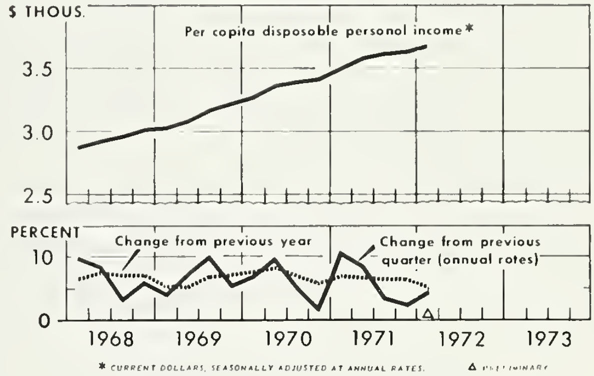
[1] Preliminary.

Employment and Income

Civilian employment rose by 620,000 seasonally adjusted in March and remained fairly steady in April. The first quarter advance of around 800,000 continued the steady rise in employment since last July. But this growth was not rapid enough to cut into the unemployment rate as the labor force also expanded rapidly.

Personal income is running about 8% above a year ago. In the first quarter, consumers received $900 billion, around $23 billion more than the fourth quarter 1971 annual rate. Retroactive pay increases approved by the Pay Board helped to produce the unusually large gain. These increases amounted to $1 billion at an annual rate in January, $4½ billion in February, and $2½ billion in March.

PER CAPITA DISPOSABLE INCOME



Average hourly earnings in nonagricultural private establishments rose 6.5% in 1971 and have been rising about 6% so far this year. Average hours worked per week are slightly above a year ago. The real after-tax earnings of a typical worker with a wife and 2 children, were 3.9% above a year earlier in March. This was the biggest rise on record for any March since the statistics began in 1964.

Table 4.—Consumer Price Index (1967=100)

Year and month	All items: Index	All items: Change from previous month annual rates	All items: Change from year-ago	Food: Index	Food: Change from previous month annual rates	Food: Change from year-ago
	1967=100	*Percent*	*Percent*	*1967=100*	*Percent*	*Percent*
1971						
February	119.4	2.0	4.8	115.9	4.2	1.6
March	119.8	4.1	4.6	117.0	11.4	2.5
April	120.2	4.0	4.3	117.8	8.2	2.8
May	120.8	6.0	4.4	118.2	4.1	2.9
June	121.5	7.0	4.5	119.2	10.2	3.5
July	121.8	3.0	4.4	119.8	6.0	3.5
August	122.1	3.0	4.4	120.0	2.0	3.5
September	122.2	1.0	4.0	119.1	-9.0	2.9
October	122.4	1.9	3.6	118.9	-2.0	2.9
November	122.6	1.9	3.5	119.0	1.0	3.6
December	123.1	4.9	3.4	120.3	13.1	4.3
1972						
January	123.2	1.0	3.4	120.3	0	4.2
February	123.8	5.9	3.7	122.2	19.0	5.4
March	124.0	1.9	3.5	122.4	1.9	4.6

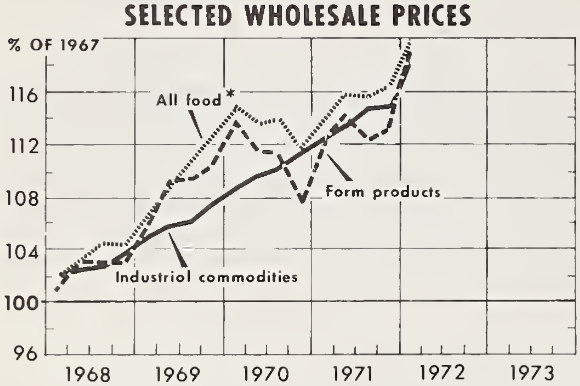
Price Indexes

In April, the Wholesale Price Index rose 0.1% on an unadjusted basis to 117.5, 3.7% above a year ago. Industrial commodities advanced 0.3%, farm products and processed foods and feeds were down 0.7%, and consumer finished goods were down 0.4%. Among the large increases from a month earlier on an unadjusted basis were: hides and skins, glass containers, inedible fats and oils, plant and animal fibers, and lumber and wood products.

The March Consumer Price Index (CPI) was unchanged from February on a seasonally adjusted basis. Without seasonal adjustment, it was up 0.2% from February. Nonfoods increased on an unadjusted basis 0.3% led by price increases for clothing and footwear, gas, furniture, used cars, and textile house furnishings. Services rose 0.2% with increases in property taxes, medical care, and sewer charges. Food rose 0.2% with fruits and vegetables costing less.

Prices measured by the GNP implicit price deflator rose at an annual rate of 6.2% in the first quarter. Some of this rise reflected military and civilian government pay raises which count as price increases. Also the rise in the proportion of investment expenditures influenced the advance.

SELECTED WHOLESALE PRICES



*ALL FOOD INCLUDES ALL PROCESSED FOODS PLUS EGGS AND FRESH AND DRIED FRUITS AND VEGETABLES FROM THE FARM PRODUCTS GROUP. BASED ON DATA OF THE BUREAU OF LABOR STATISTICS.

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U.S. Balance of Payments

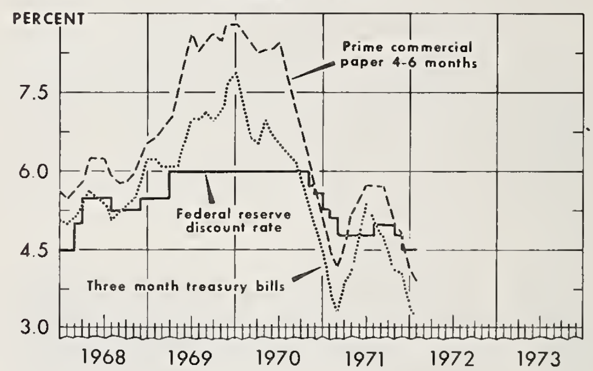
The balance of payments in 1971 was marked by substantial outflows in virtually all types of transactions. These outflows resulted in deficits for all balances except for the balance on goods and services. On the net liquidity balance (primarily the change in dollars held by all foreigners) the deficit was $22.0 billion; on the official reserve transactions basis (primarily the change in dollars held by central banks) the deficit was $29.8 billion.

There were various causes for these deficits. First, ample availability of credit domestically, and lower interest rates in the United States than abroad, led to the second consecutive year of large shifts of Euro-dollars from U.S. banks to foreign borrowers. Also there were, in recent years, persistently large capital outflows associated with direct investment abroad, some of which may have been related to the desire to gain and consolidate footholds in foreign markets and some related to comparative price and cost considerations. Thus, some capital outflows, as well as the deterioration in trade, were attributable to a fundamental worsening of our international competitive position.

The United States experienced its first trade deficit since 1935, on a balance of payments basis. Longer-term structural deterioration, which had been masked by favorable cyclical and other transitory influences in 1970, was accentuated in 1971 by less favorable conditions and by strikes, fears of import restrictions, and anticipation of revaluations of several leading currencies against the dollar.

Despite devaluation of the U.S. dollar, and because of rising domestic demand, the U.S. trade deficit for the first quarter 1972 was a record $1.5 billion. Both exports and imports rose in March, partly as a result of the end of the West Coast dock strike on February 20. The March deficit was approximately $584 million, only slightly less than the $598 million recorded in February.

INTEREST RATES*



*FEDERAL RESERVE DATA

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Money Supply

After virtually no growth in the money supply during the last half of 1971, the Federal Reserve Board Open Market Committee announced in February that it will be promoting somewhat greater growth in the money and credit aggregate in the months ahead. This implied a switch to an easier money policy, which apparently took place during the first quarter of 1972. The money supply (currency and demand deposits) increased from January through March more than 8% on a seasonally adjusted annual basis, corresponding to a similar increase last year in the same period.

Interest rates have tended upward in the past several weeks. Apparently demand for funds has been stronger in many sectors of the economy. Also, uncertainty concerning international monetary developments and domestic price policies has prompted investors to seek firmer rates. This has occurred despite the smaller requirements of the Treasury Department to float short-term securities. But mortgage rate yields have declined, continuing their downward trend since August.

CONSUMER CONFIDENCE: A GROWTH FACTOR

by

Meyer J. Harron

ABSTRACT: Consumer confidence played an important role in the economic recoveries which followed the recessions 1953-54, 1957-58, and 1960-61. After each recession year consumers decided to spend a larger portion of their incomes (or save a smaller portion) as unemployment rates fell and gains in disposable personal incomes increased. Uncertainty concerning unemployment and price increases apparently encouraged high personal savings rates in the period immediately after the 1969-70 recession. But as consumer attitudes improve, shoppers are beginning to spend proportionally more of their income.

KEY WORDS: Consumer confidence, economic recovery, consumption, savings, uncertainty, unemployment, disposable income.

The employed consumer slowly reads his evening paper with one eye on his old black and white television set. His thoughts turn to recent economic news. A few friends and relatives who were laid off in the aerospace industry are beginning to find other jobs. His stocks which had been depressed have benefited from the market recovery. With money in the bank and very few outstanding debts, maybe now is the time to buy a color television set. Prices for this item are down and finance charges have fallen.

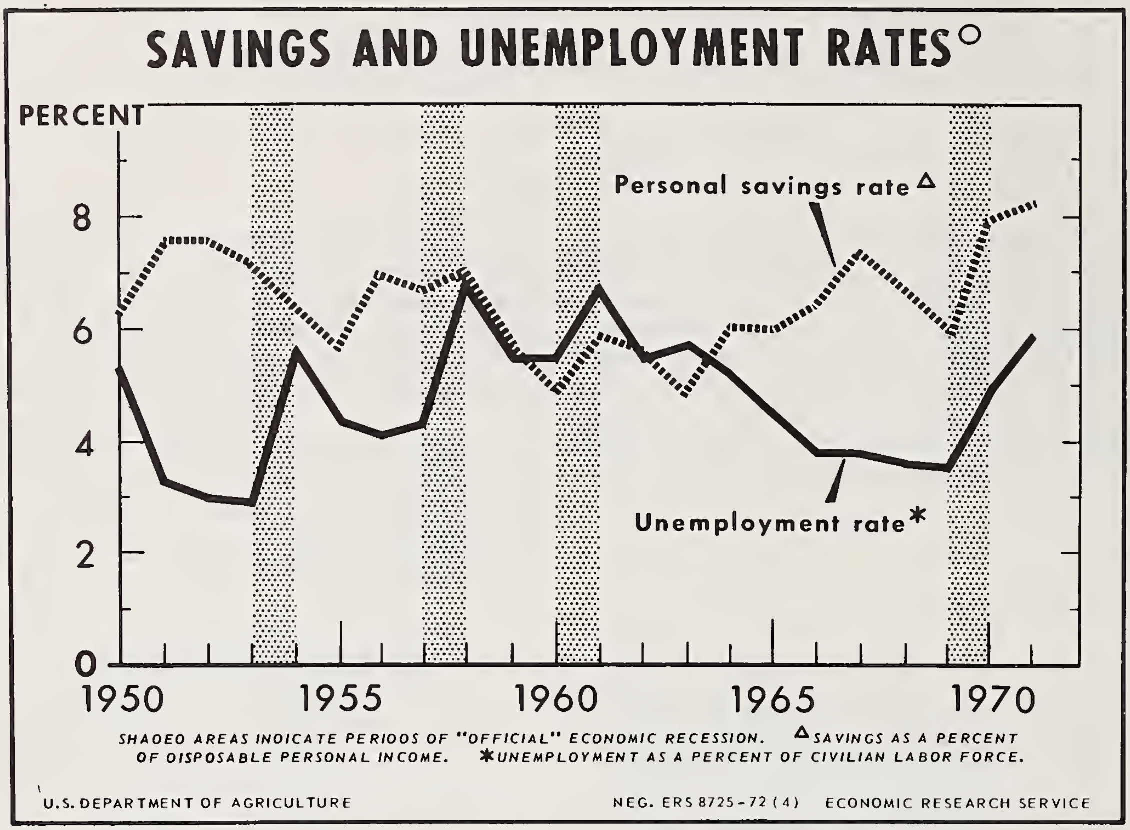
This scene was repeated with slight variations several times between 1952 and 1962. During that period, there were recessions in 1953-54, 1957-58, and 1960-61. In the first year immediately following each of these recessions (1955, 1959, and 1962) consumers accelerated their spending by consuming a greater portion (or saving a smaller portion) of their incomes. The personal savings rate (savings as a percentage of disposable personal income) dropped in each of these instances as unemployment rates fell and gains in disposable personal incomes increased rapidly after each recession year. Using the personal savings rate as a measure,[1] it is obvious that consumer confidence played a significant role in the recovery periods.

Year	Personal savings rate	Personal consumption expenditures	
		Total	Rise from previous year
	Percent	*Billion dollars*	*Billion dollars*
1954	6.4	236.5	6.5
1955	5.7	254.4	17.9
1958	7.0	290.1	8.7
1959	5.6	311.2	21.1
1961	5.8	335.2	10.0
1962	5.6	355.1	19.9
1970	7.9	615.8	36.2
1971	8.2	662.1	46.3

Most of the economic community anticipated that this pattern of events would be repeated as the 1969-70 mini-recession came to a close in late 1970. Real output of goods and services rose 2.7% in 1971 after declining slightly in 1970. Car sales rose smartly, housing outlays accelerated, and price advances eased. But although the personal savings rate began to decline in the second half

[1] The personal savings rate is used in this article because it is widely known. Savings is also derived independently of consumption data by the Bureau of Economic Analysis, Department of Commerce. These two methods of deriving savings have similar results-"Size and Composition of Personal Savings" - *Survey of Current Business* (August 1971). The personal consumption rate (also consumption function, marginal propensity to consume, etc.) appears frequently in academic literature. A number of consumer survey groups use consumer sentiment curves to show consumer attitudes. These curves also have been close to the pattern of the personal savings rate.

of 1971, it averaged 8.2% for the entire year. This was the highest annual rate since 1946 and slightly higher than 1970. Thus, 1971 was the only post-recession year in the last 20 years in which the annual personal savings rate failed to fall.



Rising Prices Discouraging

During the recent turndown, which lasted from November 1969 to November 1970 (peak to trough), a number of consumer surveys indicated that the public had been turned off by high prices. Apparently, the Consumer Price Index which rose by 6% in 1970 frightened a large number of people into putting money away for "a rainy day." Many thought that their food, rent, medical expenses, and education costs would continue to rise. This fear probably offset the urge to hedge or to buy before prices rose even further. In 1970, expenditures for durable goods, usually sensitive to consumer attitudes, declined from 1969 while spending for other goods and services rose moderately.

The shortage of housing money and the auto strike in the last quarter of 1970 limited the year's total durable goods outlays. But rising price tags also discouraged purchases of durable goods. The President's announcement in August 1971 that a 90-day wage-price freeze would be initiated and that the 7% auto excise tax would be repealed made 1971 a record year for auto sales. Beginning in October, net new car prices have been below a year earlier on a monthly basis. The latent demand apparently had awaited a halt in mounting prices.

For 1971 as a whole, the increase in the Consumer Price Index slowed to 4.3% from 6% the previous year. The real slowdown in the rate of increase came only after the August 15 actions. So far in 1972, the rise in the Consumer Price Index has been slower than a year earlier.

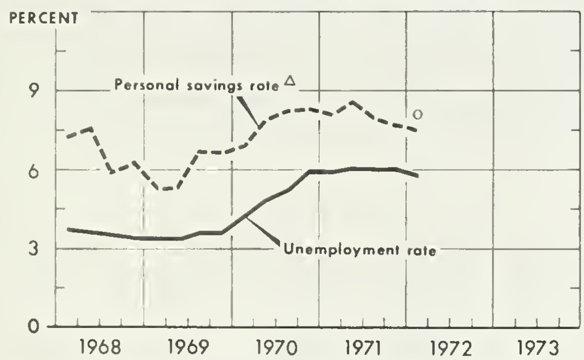
Unemployment A Factor

Unemployment has been another factor cited by consumer surveys for the high personal savings rate during 1970 and 1971. The unemployment rate rose to 4.9% during 1970 as real output declined and 5.9% during 1971, the first year of recovery. The rate hovered around 6% from late 1970 through early 1972. The economy has been growing and more people are employed. But the increase in employment is not fast enough to offset new entrants into the labor force, to rehire workers laid off in defense, space, and aircraft industries, and to absorb servicemen returning from Vietnam. This situation has affected employed

consumers who also fear that unemployment will spread or that they will be prevented from improving their occupational status.

Employers did not lay off large numbers of workers during the early stages of the 1970 slowdown. The long economic advance from 1961 to 1969 had tightened the labor market and many employers held employees beyond the reasonable needs of production schedules. Employers felt that reemployment of these workers would be costly if the economy resumed its previous advance. But once the decision to cut personnel was made, the cutbacks were rapid, affecting everyone from janitor to space scientist and stockbroker. Productivity rose accordingly, and despite increasing wage rates, the rise in unit-costs moderated in 1971.

UNEMPLOYMENT AND SAVINGS RATES*



* BASED ON SEASONALLY ADJUSTED DATA OF DEPARTMENTS OF COMMERCE AND LABOR.
△ PERSONAL SAVING AS A PERCENTAGE OF DISPOSABLE PERSONAL INCOME. O PRELIMINARY

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Recovery Relatively Mild

The 1971 consumer, observing increasing prices and the high rate of unemployment, may have been unaware that the 1970 slowdown was at an end. The 1971 recovery in real output, 2.7%, was comparatively mild and concentrated in consumer goods and services. Industrial production had not reached its pre-recession level, particularly in the business equipment and material sectors. In contrast, the post-recession years of 1955, 1959, and 1962 experienced sharp growth. The 1962 advance in real output was 6.6%; 1959's, 6.4%; and 1955, 7.6%. The 1971 American shopper was not yet motivated despite pronouncements by some statisticians and economists that we were in an upturn.

The economy in 1972 looks considerably better. More private investment and larger government expenditures are on the way. If recent surveys prove accurate, investments in new plant and equipment in 1972 will increase 12% over 1971. Businessmen are encouraged by gains in sales and profits, by improved liquidity, and by investment tax credits. And they will probably also add to inventories. And defense orders may increase, helping depressed industries in many regions. These investments should help those sectors of the economy where unemployment is most persistent.

Consumers Could Help

This recovery could be boosted if there were a strong resurgence of consumer confidence, with expenditures cutting into the personal savings rate by even 1 percentage point. The personal savings rate by historic standards was extremely high in 1970 and 1971. It has hovered around 8% since the second quarter of 1970. If the 1972 shopper follows the pattern of most post-recession years, the savings rate will fall once the real growth of the economy passes 4½% and employment grows faster than the labor force.

Real output is expected to grow around 5% this year and we might see a gradual but pervasive decline in the unemployment rate and a growing increase in consumer confidence. Just as income multiplies with new investment and added income, new consumption in an upturn has a multiplying effect upon investment, income, and further consumption.[2] Consumption in this phase of the business cycle will increase more rapidly with a gain in income. In this period the consumer will be spending a larger portion of his increasing income and saving a smaller portion.

Disposable personal income (personal income less personal income taxes) will probably be near $800 billion in 1972. Assuming[3] an 8.2% personal savings rate (the 1971 level), savings in 1972 would then be $65.6 billion. Substracting for probable interest and transfer payments ($20 billion) from personal outlays, consumption would average $714.4 billion for the year. If the rate were to decline to 7.2%, savings would be only $57.6 billion and consumption would be increased by $8 billion to $722.4 billion.

All other factors being equal, and discounting secondary effects, this could make a sizable difference in the growth of total gross national product for 1972. If we assume an 8.2% savings rate for illustrative purposes, the gross national product could total $1,139 billion in 1972. With a 7.2% rate, the gross national product would be around $1,147 billion on the basis of increased consumption alone.

Furthermore, an expansion of consumption creates additional income for workers in consumption goods industries and those performing consumer services. And manufacturers influenced by rising sales would accelerate their purchases of producer goods. This activity in 1972 will lay the foundations for normal growth in all sectors of the economy—provided, of course, the consumers are not frightened further by higher prices, labor disputes, trade deficits, dollar instability, or fluctuations in the stock markets.

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[2] This is the familiar "accelerator effect" in which new sales influence new investment for additional machines and plant capacity.

[3] This example is illustrative only and does not attempt to cover secondary interactions between consumption and income.

Year	Disposable personal income	Transfer and interest payments	Savings	Personal consumption expenditures	Personal savings rate
	Billion sollars	*Billion dollars*	*Billion dollars*	*Billion dollars*	*Percent*
1972e.	800.0	20.0	57.6	722.4	7.2
1972e.	800.0	20.0	65.6	714.4	8.2
1971	741.3	18.6	60.5	662.1	8.2

e. Estimated. (Illustrative only)

Example of Consumer Confidence

A recent example of the strong role of consumer confidence in the economy occurred just before the 1969-70 turndown. During that period, the consumer was overconfident. He had experienced about 8 years of steady growth and very low unemployment, one of the longest economic expansions in U.S. history. As part of a program to slow consumer spending and to fight inflation, Congress imposed a 10% surtax in 1968. Had the consumers kept their personal savings rate constant, the tax increase would have cut personal consumption significantly. Having experienced a drop in the unemployment rate from 6.7% in 1961 to 3.5% in 1969, consumers continued their spending. They collectively elected to save less of their current income to cover the increased taxes. Some individuals even spent more than their incomes, realizing that the surtax had a fairly definite expiration date.

Part of the consumer's decision to absorb the tax increase by saving less was probably based on a farily optimistic view of the furture. Most economic indicators were pointing upward in 1968 and early 1969 with only a few down. There was really no clear indication that within a short period of time profits would fall or that the stock market would slide. The only dark spot on the horizon was the fear of further price increases. The personal savings rate traditionally declines before a recession period (this occurred in 1953, 1957, 1960, and 1969) because the public is unaware that the economy is declining until the recession is well underway.

Outlook Better

The Nation's leading surveys on consumer buying plans indicate consumer confidence is increasing. The personal savings rate has been declining since mid-1971. But, as usual, the analysts differ somewhat on causes and magnitude. Most consumers are finally aware that business conditions are favorable compared with the 1969-70 period. Policies to moderate prices and stimulate growth have been widely publicized. The more affluent segment of the population has been encouraged by stock market gains and an ease in liquidity problems. Lower income groups have been helped somewhat by income tax reductions, rise in social security benefits, wage agreements, and unemployment compensation.

Period	Disposable personal income	Personal consumption expenditures	Personal savings rate[1]	Unemployment rate[2]
	Billion dollars	*Billion dollars*	*Percent*	*Percent*
	(seasonally adjusted annual rates)			
1970 I ...	667.6	604.0	6.9	4.2
II ..	685.7	613.8	7.9	4.8
III ..	696.2	620.9	8.2	5.2
IV ..	701.5	624.7	8.3	5.8
1971 I ...	722.0	644.9	8.1	6.0
II ..	739.6	657.4	8.6	6.0
III ..	748.5	668.8	8.1	6.0
IV ..	755.0	677.2	7.8	5.9
1972 Ip.[3]	765.7	690.2	7.4	5.8

[1] Personal saving as a percent of disposable personal income.
[2] Percent of civilian labor force, seasonally adjusted data.
[3] Preliminary.

Perhaps that color T.V. will be bought and a downpayment made on a new home. Consumer spending and saving habits are still a great puzzle to many analysts but hopefully the past pattern indicates some good news soon.

LIST OF TABLES

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